

SMALL BUSINESS

United States

Number 185
Small Business

Administration

Office of Advocacy

RESEARCH SUMMARY

RS

April 1998

Changing Characteristics of the Self-Employed

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1996. 45p. Carolyn Loeff and Associates, 1635 Ashwood Rd., Lexington, KY 40502

Completed under contract no. SBA-8142-OA-94

Purpose

The businesses owned by the self-employed are usually very small (though many have employees) and represent a wide variety of endeavors--from part-time efforts of wage-and-salary workers to established independent firms employing many people. In recent years there has been a dramatic increase in the number of persons who are self-employed. The study evaluates the various aspects of self-employment and examines self-employment trends for the period 1983-1994. This effort extends earlier analyses of self-employment undertaken by the Office of Advocacy and presented in the 1986 edition of *The State of Small Business: A Report of the President*.

Scope and Methodology

The study uses data from the Current Population Survey (CPS), a monthly nationwide survey of approximately 60,000 households conducted by the Bureau of the Census. The CPS is the official government source of

statistics on employment and unemployment. It provides important demographic information such as age, gender, race, marital status, educational attainment, and family structure. Questions that are included on a regular basis address such subjects as health, education, income, and previous work experience. The CPS allows the researcher to distinguish among the unincorporated self-employed (USE), the incorporated self-employed (ISE), and wage-and-salary workers.

The study uses the March CPS for 1988 and 1994. Combined with the SBA's earlier analyses of the 1979 and 1983 data, this provides 15 years of information on self-employment at roughly five-year intervals. Additionally, Census information drawn from employee benefits supplements is used to provide an even more complete census of all people with self-employment income. For example, it permits identification of "moonlighters"--wage-and-salary workers with self-employment (WSSE) on the side, and wage-and-salary workers who have no self-employment income (WSO).

Also as a complement to the information in the CPS, the study examines Wave 1 of the 1993 Survey of

Income and Program Participation (SIPP) data set. This longitudinal survey provides detailed information on the economic situation of households and individuals.

Highlights

Results of the analyses of the CPS data indicate:

- The USE grew at a fairly steady pace between 1983 and 1994, averaging around one and one-half percent per year. The ISE grew more rapidly, averaging 3 percent per year between 1983 and 1988 and 5.9 percent per year between 1988 and 1994. (The rapid growth in the ISE over that period may be due to changes in tax laws that made it attractive for the USE to form Subchapter S corporations.)
- WSSE declined over the entire 1983-1994 period. This contrasts with a sharp increase in the WSSE between 1979 and 1983.
- The self-employed tend to be older than wage-and-salary workers. Among the full-time ISE, 46 percent were from 45 to 64 years old, while only 26 percent were from 45 to 64 years old among full-time wage-and-salary-only workers.
- Women continue to move into self-employment. From 1983 to 1988 to 1994, the proportion of full-time self-employed workers that were female increased from 20.5 percent to 24.9 percent to 28.1 percent.
- The percentage of self-employed workers who are black declined between 1983 and 1988, from 3.8 percent to 3.5 percent. Between 1988 and 1994, however, this percentage increased to 4.8 percent.
- Hispanics are more likely than non-Hispanics to have wage-and-salary-only employment. In 1994, Hispanics comprised 9.1 percent of full-time WSO but only 5.1 percent of all self-employed workers.
- Self-employed workers as a group tend to have more formal education than wage-and-salary workers. They also are more likely to be married with a spouse present.
- Males are heavily represented in construction, while women are heavily represented in services and retail trade. Women dominate the administrative support and services occupational groups, while men dominate the precision production, craft, and repair occupational group.
- In 1993, ISE workers posted the highest median earnings, \$38,000; WSSE workers, \$33,000; and USE workers, \$20,000 in 1993.

Summary

Self-employment provides the starting point for many small businesses. Roughly 13 percent of all nonagricultural workers are self-employed in a primary or secondary job. Rates of self-employment differ significantly by age, gender, race, educational level, marital status, veteran status, industry, and occupation. Significant differences exist in the distribution of male and female workers by industry and by occupation. The earnings differ considerably according to whether the worker is categorized incorporated, unincorporated, or wage-and-salary with self-employment.

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Order number: PB96-197785

Cost: A04 (Paper) \$21.50; A01 (Microfiche) \$10.00